United Nations A/CN.9/SR.913

General Assembly

Distr.: General
20 July 2010

Original: English

United Nations Commission on International Trade Law

Forty-third session

Summary record of the 913th meeting
Held at Headquarters, New York, on Tuesday, 29 June 2010, at 10 a.m.

Chairperson: Ms. Sabo ..... (Canada)

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Finalization and adoption of a draft supplement to the UNCITRAL Legislative Guide on Secured Transactions dealing with security rights in intellectual property (*continued*)

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10-42747 (E)

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Finalization and adoption of a draft supplement to the UNCITRAL Legislative Guide on Secured Transactions dealing with security rights in intellectual property (*continued*) (A/CN.9/700/Add.6; A/CN.9/XLIII/CRP.7 and A/CN.9/XLIII/CRP.8)

1. **The Chairperson** urged the Commission to be flexible and objective in resolving the outstanding issues, bearing in mind the limited time available. It might be possible to leave the questions of creation and enforcement, and of the insolvency administrator and unsecured creditors, to the grantor's location, and to consider opposability and priority in the context of *lex protectionis*, along with the question of secured creditors and unregistered intellectual property. It would be helpful if the number of options before the Commission could be reduced.

2. **Mr. Son** Seoung-woo (Republic of Korea) said that his delegation favoured option C (contained in document A/CN.9/700/Add.6), but in the interest of reaching consensus could support the proposals put forward by the Permanent Bureau of the Hague Conference on Private International Law, the Commercial Finance Association and the American Bar Association (A/CN.9/XLIII/CRP.7). *Lex protectionis* would apply regarding basic property issues, specifically third-party effectiveness and priority. More importantly, the law of enforcement should be that of the grantor's location.

3. **Mr. Umarji** (India) said that his delegation preferred option A with regard to *lex protectionis*. The proposal submitted by Canada (A/CN.9/XLIII/CRP.8) was similar to option A, with an adaptation in respect of insolvency representation. Adoption of that proposal would facilitate compliance by States parties with the international conventions providing for *lex protectionis* referred to in the note by the Secretariat (A/CN.9/700/Add.6, para. 14). Accordingly, his delegation supported the Canadian proposal.

4. **Mr. Dolata** (Poland) and **Mr. Maradiaga** (Honduras) also endorsed Canada's proposal.

5. **Mr. Morán Bovio** (Spain) said that the primary concern was to arrive at a single solution; otherwise the Guide, which embodied uniform recommendations, would be distorted. With that in mind, he supported the Canadian proposal, as both clear and simple. It would increase certainty in applying the Guide. However, if a majority view emerged in favour of a different solution, his delegation would join the consensus in the interest of a single solution.

6. **The Chairperson** agreed that it was vital to have one rule, as part of a uniform, harmonized regime.

7. **Ms. Smyth** (Australia) said that options E and F (A/CN.9/XLIII/CRP.7) were the closest to new legislation in Australia on conflict of laws rules in its personal property regime. While more complex than the Canadian proposal, those options provided greater certainty for parties taking a secured interest in intellectual property. With certain exceptions, where *lex protectionis* would apply, they also addressed the concerns of parties taking transfers of intellectual property. However, her delegation appreciated that a single rule would be most helpful to users of the Guide.

8. **Mr. Monardes** (Chile) said that his delegation preferred option A, in view of Chile's domestic legislation on the matter. The law governing priority of rights in intellectual property should be that of the State protecting the property.

9. **The Chairperson** reminded the Commission that the rule would need to function within the regime envisaged in the Guide as well as in the context of national intellectual property regimes.

10. **Mr. Hughes** (United States of America) said that he was not aware of any problems the conventions referred to by the representative of India might pose in terms of the choice to be made by the Commission, and he would welcome clarification. His delegation shared the concerns expressed regarding the Canadian proposal (A/CN.9/XLIII/CRP.8), since with respect to enforcement it referred to *lex protectionis*, so that a security interest in all of a company's worldwide intellectual property assets could not be enforced in one sale under one set of rules, which was bad economics. The proposals by the Commercial Finance Association (A/CN.9/XLIII/CRP.7) would have the grantor's location govern, which was preferable.

11. **Mr. Korma** (Egypt) asked whether, under the Canadian proposal, it was possible to have two different legal systems apply to different secured creditors, and, if so, what happened if the two systems conflicted. The proposal appeared not to cover that eventuality.

12. **Mr. Du** Jun (China) said that his delegation preferred option A, since security rights derived from intellectual property rights. The law of the country

establishing the intellectual property rights was applicable.

13. **Mr. Özsunay** (Turkey) expressed his delegation's support for option E.

14. **Mr. Deschamps** (Canada) said that under his delegation's proposal, enforcement was governed by *lex protectionis*, so that if two secured creditors had obtained a security right in the same asset, one single law would apply in enforcement proceedings initiated by either secured creditor and in determining their relative priority. The same would be true, however, if the grantor's law, rather than *lex protectionis*, was applicable.

15. **Mr. Cohen** (United States of America) said that his delegation understood that if a single intellectual property right was protected under the law of a single State, enforcement would be governed by the law of one State, under both the Canadian and the other proposals before the Commission. However, he wondered what the situation would be if there were many intellectual property assets protected under the laws of many different States and a secured creditor sought to enforce a security right. Would Canada's proposal still lead to enforcement under the law of a single State?

16. **Mr. Chan** Wah-Teck (Singapore) requested clarification of the statement by the representative of Canada that where intellectual property assets served as collateral and a secured creditor sought enforcement, *lex protectionis* determined priority, but that the grantor's law might apply in certain circumstances.

17. **The Chairperson** said that her understanding was that under the Canadian proposal only *lex protectionis* would apply, and that under the Commercial Finance Association's proposal only the law of the grantor's location would apply, so that under both proposals there was only one applicable law.

18. **Mr. Brennan** (Observer for the Independent Film and Television Alliance) said that *lex protectionis* with respect to an enforcement proceeding did not require a secured creditor to conduct multiple enforcement proceedings in multiple countries. Rather, the result of a transfer was determined by the law of each protecting country, and where a secured creditor exercised a licensor's power to make a disposition in the event of foreclosure under the law of a particular country that power existed in multiple countries. The only *lex protectionis* issue was whether the resultant transfer was recognized in another country, which normally simply meant compliance with due process. A contract or an enforcement judgement obtained in one country did not require a new contract or judgement in every other country, but whether such instruments were actually enforceable depended on local law.

19. **Mr. Riffard** (France) said that, while the Commission needed to limit the number of options proposed, it would not be a problem to have more than one option in the Guide, which contained variants in respect of other issues. The Canadian and Commercial Finance Association proposals sought to replace options A to D. Proponents of option A and of *lex protectionis* favoured the Canadian proposal, but both proposals could be included.

20. **Mr. Weise** (Observer for the American Bar Association) said that, based on the options presented in document A/CN.9/XLIII/CRP.7, property issues would be covered by the *lex protectionis*, while enforcement issues would be covered by the law of the grantor's location. The Canadian proposal (A/CN.9/XLIII/CRP.8), on the other hand, said that all enforcement issues, whether related to property or to procedure, were governed by the *lex protectionis*. In that regard, if there were intellectual property rights protected under the laws of more than one State, more than one set of enforcement procedures would be required.

21. **Mr. Brennan** (Observer for the Independent Film and Television Alliance) said that there seemed to be some misunderstanding. As an intellectual property lawyer, he thought that the *lex protectionis* referred to the law of the State of protection, such that, under the conflicts rule, property issues would be governed by one law and contract issues would be governed by a different law. It was therefore important to clarify the meaning of the *lex protectionis*.

22. **The Chairperson** said that she had heard no support for options B and D (A/CN.9/700/Add.6, pp. 16-17), and that the State which had supported option C was now prepared to support the proposal in document A/CN.9/XLIII/CRP.7. As there were no objections to the elimination of options B, C and D, the discussion would be confined to the proposals in documents A/CN.9/XLIII/CRP.7 and A/CN.9/XLIII/CRP.8, along with option A. However, given that

there were very few differences between the Canadian proposal (A/CN.9/XLIII/CRP.8) and option A, she wondered whether option A could be eliminated.

23. **Mr. Wiegand** (Observer for Switzerland) said that his delegation was willing to eliminate option A, but only on the condition that the proposal contained in document A/CN.9/XLIII/CRP.8 was included in the Guide.

24. **The Chairperson** said that, as there was no unanimous consent to eliminate option A, the Commission would consider it, along with the proposals in documents A/CN.9/XLIII/CRP.7 and A/CN.9/XLIII/CRP.8.

25. **Mr. Deschamps** (Canada) said that the representative of Egypt had asked a question about competing claims from two different secured creditors in respect of the same asset. His response was that if the asset was protected under the law of a given State, and if the *lex protectionis* governed priority and enforcement of the two security rights, as would be the case under any proposal that used the *lex protectionis* for those issues, one single law would apply in relation to that asset. In response to the question asked by the representative of the United States of America about a grantor who had several intellectual property assets in several States, he said that if the *lex protectionis* was the applicable law, the secured creditors would have to look to the law of each State for each asset. However, any competition between the secured creditors would always be resolved by one single law.

26. **Mr. Weise** (Observer for the American Bar Association) said that the law of one State would apply as between two secured creditors in the case of a single intellectual property asset protected under the law of a single State. With multiple intellectual property assets protected under the laws of multiple States, on the other hand, the laws of those States would each apply to the particular intellectual property they protected.

27. **Mr. Deschamps** (Canada) said that he agreed fully with that interpretation.

28. **Mr. Bazinas** (International Trade Law Division) said that there was probably some misunderstanding. The point was that, in the event of a priority conflict between two secured creditors with respect to an intellectual property asset protected under the law of State A, priority would be resolved by the law of State A. If the same creditors had a security interest in another intellectual property asset protected under the law of State B, their priority conflict would be resolved under the law of State B. A priority conflict would always be resolved under one law, because intellectual property assets were subject to national treatment.

29. **Mr. Agthe** (Observer for the International Trademark Association) said that he agreed with Mr. Bazinas's summary.

The meeting was suspended at 11.15 a.m. and resumed at 12.10 p.m.

30. **The Chairperson** said that, in the hopes of establishing a single rule, it might be useful to consider the applicable law for each of the different components of the security right, namely creation, third-party effectiveness and priority, and enforcement.

31. **Mr. Deschamps** (Canada) said that the Canadian delegation was prepared to amend its proposal, but solely on the issue of enforcement, in order to address the concern expressed by many delegations which had supported the proposal in document A/CN.9/XLIII/CRP.7. The revised proposal, for which he did not have a text, would indicate that enforcement would be governed by the law of the grantor's location, instead of the *lex protectionis*.

32. **The Chairperson** said it was her understanding that creation, third-party effectiveness and priority would be governed by the *lex protectionis*, with the exception that the secured creditor could seek protection as against an insolvency administrator and unsecured creditors under the law of the grantor's location. Enforcement, on the other hand, would be governed by the law of the grantor's location.

33. **Mr. Tosato** (Italy) said that, while the proposal seemed acceptable in principle, it would be crucial to have a text. If there was strong support for the change to have enforcement governed by the law of the grantor's location, it would be critical to include a commentary to explain the issues that might arise, during the course of that enforcement, in connection with priority and third-party effectiveness.

34. **Mr. Weise** (Observer for the American Bar Association) said that although his delegation had been one of the proponents of the proposal in document A/CN.9/XLIII/CRP.7, it would support the proposed revision to the Canadian proposal (A/CN.9/XLIII/CRP.8). However, the general rule that creation was protected by *lex protectionis* should

include an exception to the effect that creation might also be protected by the law of the grantor's location.

35. **The Chairperson** said she understood the suggestion to be that, with regard to creation, the parties had the option of having the security rights governed by the law of the grantor's location or by the *lex protectionis*.

36. **Mr. Nigam** (India) said that the revised Canadian proposal should be clarified. If, for example, a patent owner in country A gave a licence to five licensees in five different countries, and the licensees created security interests over their rights, borrowed money from different lenders in their respective countries and thereafter defaulted on the loans, there would be enforcement under the law of the grantor's location. If the licence rights were sold to another third party, the patent and the security interest over that patent should also be registered in country A, where the original patent was protected. Any sale or transfer of the licensee's rights to another third party would also have to be registered in country A. He wished to know whether that would still be applicable with the proposed change to document A/CN.9/XLIII/CRP.8.

37. **Mr. Weise** (Observer for the American Bar Association) said that the legal requirements for registration of transfer of the intellectual property in the *lex protectionis* would still apply. In that regard, moving the commentary in document A/CN.9/XLIII/CRP.7 to document A/CN.9/XLIII/CRP.8, as requested by the representative of Italy, would help clarify the issue, and would show that the amended Canadian proposal would achieve the result sought by the representative of India.

38. **The Chairperson** said she took it that if someone held a patent in country A, which was licensed to licensees in countries B, C and D, who then granted a security interest to their respective lenders in countries B, C and D, and there was a default followed by enforcement in the respective countries of those lenders, the intellectual property laws of the countries in which the intellectual property was protected would continue to apply. She said she took it that there was general agreement to include the relevant portions of the commentary contained in document A/CN.9/XLIII/CRP.7 in the draft Supplement.

39. *It was so decided.*

40. **Mr. Deschamps** (Canada) said that he agreed fully with the explanation given by the Observer for the American Bar Association and that the comments on the property aspects of the enforcement process should be contained in the commentary. However, for the sake of simplicity, the comments in document A/CN.9/XLIII/CRP.7 should be incorporated into the commentary and not into the Rule itself. Nonetheless, the Rule should be read in the light of the general provisions of the Guide, which were already to the same effect.

41. **Mr. Agthe** (Observer for the International Trademark Association) said that his delegation did not disagree with the principle that the effects of a disposition would be governed by the intellectual property law of the country where the intellectual property was protected. However, the example given was misleading: a patent registered in country A could not be licensed to a licensee in country B because it had no effect outside the country where it was registered. A patent also had to exist in country B, where the licensee was located and where it would be using the invention described in the patent.

42. **Mr. Weise** (Observer for the American Bar Association) said that a better example might be a situation in which a grantor owned a patent in country A that was protected under the law of that country and another patent protected under the law of country B, while the grantor itself was located in country C. Enforcement would take place under the law of country C, but the law of country A, which required that the patent should be registered in country A in order for the enforcement disposition to be effected or completed, would remain applicable.

43. **The Chairperson** asked whether there were any objections in principle to the Canadian proposal, with the suggested changes.

44. **Mr. Umarji** (India) said that the *lex protectionis* would be diluted if it were shifted from the principal rule to the commentary. His delegation would prefer the rule itself to provide that the *lex protectionis* would continue to apply to the enforcement of security rights, and for that reason he favoured option A. However, he could also accept the Canadian proposal with the suggested changes regarding insolvency practice.

45. **The Chairperson** said it was her understanding that, for those who favoured option A or the original Canadian proposal, third-party effectiveness and

priority were the key elements that should be subject to the *lex protectionis*. In the modified Canadian proposal, the *lex protectionis* still applied to both of those elements, along with creation.

46. **Mr. Deschamps** (Canada) reiterated that there would be only one change to the original Canadian proposal contained in A/CN.9/XLIII/CRP.8: a sentence would be added to the effect that enforcement was governed by the law of the grantor's location instead of the *lex protectionis* and the word "enforcement" would accordingly be deleted from the first sentence.

47. **Mr. Cohen** (United States of America), noting that, under the Canadian proposal, the creation of a security right would be governed either by the *lex protectionis* or by the law of the grantor's State, said that the question of how those options would operate could be clarified in the commentary. With regard to the proposed modification relating to enforcement, he agreed that it was necessary to see the suggested wording.

48. **Mr. Riffard** (France) said that his delegation's concerns regarding enforcement had been accommodated and it therefore supported the Canadian proposal with the suggested modifications.

49. **Mr. Wiegand** (Observer for Switzerland) said that, if the Canadian proposal was modified along the lines mentioned, his delegation could support it fully and would no longer wish to retain option A.

50. **Mr. Morán Bovio** (Spain), **Mr. Agthe** (Observer for the International Trademark Association) and **Mr. Son** Seoung-woo (Republic of Korea) expressed support for the Canadian proposal with the changes that had been outlined.

51. **Mr. Mittsdoerffer** (Germany) said that his delegation continued to believe that the *lex protectionis*, as set out in option A, should be the starting point for any discussion. It was, however, prepared to depart from that principle to some extent in the case of creation and enforcement and therefore fully supported the Canadian proposal with the suggested changes.

52. **Ms. Sanderson** (United Kingdom) said that her delegation also supported the Canadian proposal, subject to agreement on the new wording. She agreed with the representative of Spain that it was in everyone's interests to have a single solution to the issue at hand.

53. **Ms. Hu** Shengtao (China) requested clarification as to whether all countries in which an intellectual property asset was registered, including the grantor's State, could be considered protecting States, and whether subjecting bilateral enforcement of contractual exchanges to the law of the grantor's State, in line with the suggested changes to the Canadian proposal, would therefore imply that such enforcement did not include effective enforcement against third parties.

54. **Mr. Bazinas** (International Trade Law Division) said it was his understanding that the first sentence of the Canadian proposal provided that a security interest could be created under the law of the State in which the intellectual property was protected, while the second sentence offered the option to create a security interest under the law of the grantor's State, where the secured creditor was not concerned about conflicts with other secured creditors but rather about situations in which the grantor became insolvent and the secured creditor was at risk of losing the collateral. It should also be borne in mind that, in accordance with recommendation 223 of the Guide, the commencement of insolvency proceedings should not affect which law was applicable, but it might have an impact insofar as certain issues such as avoidance, treatment of secured creditors, ranking of claims or distribution of proceeds might have to be resolved under the law of the State in which the insolvency proceedings were commenced.

55. If the Canadian proposal was revised along the lines suggested, enforcement would be subject to the law of the grantor's State. Therefore, if a secured creditor had a security interest in intellectual property assets located in many States, that security interest would be enforced under the law of the State in which the grantor was located. Of course, the question remained whether the jurisdictions in which the assets were protected would accept the result of that enforcement. Moreover, as set out in recommendation 222 of the Guide, any applicable law rule was subject to the mandatory rules and public policy of the forum State.

56. **Mr. Brennan** (Observer for the Independent Film and Television Alliance) said that the Canadian proposal, with the suggested changes, represented an excellent way forward that would work well for intellectual property practitioners.

57. **Mr. Alcantara** (Observer for the Commercial Finance Association) said that his delegation had been

one of the proponents of the proposal set out in document A/CN.9/XLIII/CRP.7 but could fully support the revised Canadian proposal as the single option to be included in the draft Supplement.

58. **Ms. Rogne** (Norway) and **Mr. Özsunay** (Turkey) said that they supported the revised Canadian proposal, subject to agreement of the precise wording.

59. **Ms. Longcroft** (World Intellectual Property Organization) said that, as stated in document A/CN.9/701, the World Intellectual Property Organization had consistently held that the *lex protectionis*, as set out in option A, should remain the guiding principle in determining the law applicable to a security interest in intellectual property. Her delegation would, however, support the Canadian proposal if it was modified along the lines suggested.

60. **Mr. Weise** (Observer for the American Bar Association) said that, under the Canadian proposal, the option to apply the law of the grantor's location to the creation of a security right was available in all circumstances and was not limited to cases in which there was a dispute with the insolvency administrator. The only element that was limited to such disputes was effectiveness against third parties.

61. **The Chairperson** said that there seemed to be broad support in principle for the Canadian proposal with the suggested modifications. Precise wording would be drafted in due course for the Commission's consideration.

The meeting rose at 1 p.m.